



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 15, 2010

TO: Mayor and Councilmembers

FROM: Airport Administration, Airport Department

SUBJECT: Introduction Of Ordinances For Agreements For Airport Food And Beverage And Retail Concessions

RECOMMENDATION: That Council:

- A. Authorize the Airport Director to execute, subject to approval as to form by the City Attorney, a ten-year concession agreement, and introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Approving a Ten-Year Concession Agreement with First Class Concessions, Inc. for operation of a Food and Beverage Concession at the Airport; and
- B. Authorize the Airport Director to execute, subject to approval as to form by the City Attorney, a ten-year concession agreement, and introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Approving a Ten-Year Concession Agreement with M/E, Inc. for operation of a Retail News and Gift Concession at the Airport.

DISCUSSION:

Background

The new Airline Terminal building will include expanded concession services and improve the location of the concession spaces. Two food and beverage locations are planned: 1,900 square feet post-security on the second floor, and 1,000 square feet pre-security on the ground floor. Retail space has been identified in three post security locations consisting of 480, 570, and 885 square-feet, respectively. Consistent with the Spanish Colonial Revival architecture of the facility, the concessions will be developed to resemble typical Santa Barbara storefronts, thereby creating a "sense of place" for travelers.

Concession Outreach

An Airport Concessions Outreach meeting was held on December 10, 2009, to encourage community participation in the concessions program and to promote and create business opportunities for local, regional and national companies. More than 50

individuals attended the meeting and gained a better understanding of the challenges and requirements of operating a concession at the Airport.

Operating requirements differ substantially from “street retail” in that operating hours are tied to the flight schedule with expected hours of 5 a.m. to 11 p.m. daily. All units will be required to operate every day, including holidays, and may be required to be open during times that may not be profitable. Passenger traffic varies by season, month, and day of the week. Additionally, security requirements are stricter, requiring a 10 year background check and finger printing for employees. The majority of concession space is post-security which is beneficial for sales, but also limits the customer base to ticketed passengers.

Requests for Proposals (RFP)

As part of the Requests for Proposals (RFP) development, the Airline Terminal design architects prepared a Concessions Design Manual. The Manual was prepared to guide Concessionaires in the design and construction of facilities at Santa Barbara Airport Airline Terminal. The Manual outlines procedures, policies, goals and requirements for developing or modifying facilities.

Each RFP provided information on the proposal process, specific definitions pertaining to the Airport and the concession program, current concession program data, description, location of the available concession spaces (Attachment 1), and evaluation criteria. The RFP’s also incorporated a copy of the Concessions Design Manual.

Proposers were required to submit information regarding their experience managing and operating an airport concession, the brand or concept for the space along with the conceptual design, scope of improvements, and the proposed capital investment. Additionally, the Proposers had to demonstrate financial capability.

Also included in the RFP requirements was the FAA required Airport Concession Disadvantage Business Enterprise (ACDBE) policy which creates a level playing field for all potential firms or individuals to compete without regard to race, color, sex, or national origin. Information was also provided for potential proposers to investigate the process to become a certified ACDBE.

Proposals Received

Despite extensive outreach efforts, only one proposal was received for each category which met the minimum requirements. Based on recent articles in industry trade magazines, this is not unusual for small airports.

The food and beverage proposal was received from First Class Concessions, Inc., a certified DBE, teamed with a regionally recognized branded company, The Coffee Bean & Tea Leaf, to operate in both locations (pre and post-security).

The sole retail proposal was submitted by M/E, Inc., the current operator, for the largest concession space (post-security). The Airport will either do a separate solicitation or enter into negotiations for the remaining two retail concession spaces at a later date.

Evaluation Process

An Evaluation Committee composed of Airport and Finance Department staff and the Terminal Project Architect met to evaluate the proposals and the design concepts for the concession space. Both proposals were evaluated based on the following criteria:

- Retail Concept/Plan
- Capital Investment
- Experience and Quality of Past Performance
- Facility Design and Quality of Improvements
- Financial – Pro-Forma Operating Statement
- Management and Operations Plan

The Evaluation Committee found that each of the proposers submitted a complete proposal package, and has the qualifications, experience and financial resources necessary to fulfill the obligations undertaken in the Concession Agreement.

Food and Beverage Concession Agreement

First Class Concessions, Inc. is a FAA certified Disadvantaged Business Enterprise (DBE), and the proposal features two franchised Coffee Bean & Tea Leaf locations, one pre-security and one post-security sharing the space with a Costa Terraza tapas bar. First Class Concessions has successfully teamed with The Coffee Bean & Tea Leaf in other airports.

Based in San Diego, the combined airport concession experience of First Class Concession's executive team is well over 40 years. Current food and beverage locations include: Panama City Bay County Airport, Panama City, Florida, Will Rogers World Airport, Oklahoma City, Oklahoma, Sky Harbor International Airport, Phoenix, Arizona, St. Petersburg Clearwater International Airport, St. Petersburg, Florida, Fort Wayne International Airport, Fort Wayne, Indiana.

The company's financial documents, which were reviewed by the City Finance Department, met the minimum criteria for operation of the concession.

The concept design for the franchised Coffee Bean & Tea Leaf locations and the Costa Terraza restaurant and bar was reviewed by the Terminal Project Architect and found to substantially meet the criteria established in the Concessions Design Manual. First Class Concessions is proposing to invest \$164 per square foot or \$164,000 for the build-out of the pre-security Coffee Bean & Tea Leaf Location and \$216 per square foot or \$410,400 for the post-security Coffee Bean & Tea Leaf and Costa Terraza location.

The proposed menu for both of The Coffee Bean & Tea Leaf locations will feature coffee and espresso drinks, ice blended drinks, and tea. They will also serve an assortment of baked goods and grab-and-go items, including: sandwiches, salads, fresh fruit and yogurt.

The Costa Terra tapas bar will have a larger menu and include a full bar featuring local wines. The menu will include appetizers, panini, flat bread, deli and grilled sandwiches, soups, salads, and desserts.

The Concession Agreement establishes a minimum annual guarantee (MAG) of \$36,000 or a percentage of gross receipts, whichever is greater. The MAG is adjusted annually based upon the average monthly gross receipts for the preceding year. Percentage rent is determined based upon the annual number of enplaned passengers. For example, if the number of enplaned passengers is between 250,000 and 500,000, the percentage rent for coffee sales is 8% of gross receipts and downstairs and upstairs food and beverage sales is 10% and alcohol is 12%. The specific terms contained in the proposed Concession Agreement are outlined in Attachment 2.

The Proforma Operating Statement for the first full year of operation in the new Airline Terminal estimates that with a total of 400,000 enplaned passengers, using the proposed percentages, the rent to be paid by First Class Concessions to the Airport would be \$114,225. This is based on expected earnings of \$3 per enplaned passenger, or \$1,200,000, by First Class Concessions.

This projection compared with the calendar year sales of the current food and beverage operation of \$771,772, or \$2.05 per enplaned passenger, represents a 55% increase in food and beverage sales and an 111% increase in rental fees paid to the Airport.

Retail Concession Agreement

M/E, Inc. has operated the News & Gift concession at the existing Terminal since 1983. In the 27 years that M/E, Inc. has been associated with the Airport, they have been a tenant in good standing even though they have been operating in inadequate space and under difficult conditions. M/E also operates the Read & Post in Montecito, the Front Page in Goleta, and the former Enlightened Sights store in Paseo Nuevo.

The company's financial documents, which were reviewed by the City Finance Department staff, met the minimum criteria for operation of the concession.

M/E's proposal includes the build-out of the 885 square foot post-security retail concession. M/E is proposing to invest \$50 per square foot or \$44,250 for the build out of the post-security news and gift retail concession. The concept design was reviewed by the Terminal Project Architect and found to substantially meet the criteria established in the Concessions Design Manual.

The gift shop proposes to carry books, magazines, and newspapers, toiletries, over the counter medications, Santa Barbara souvenirs, travel items, office related items, children's toys and games, bottled water and candy and snack foods. M/E is also exploring the possibility of selling Santa Barbara regional wine by the bottle to be carried aboard the aircraft and See's Candies. The concession agreement established a MAG of \$12,000 or percentage rent, whichever is greater. Percentage rent is calculated based on annual gross receipts. For example, if gross receipts are less than \$500,000, percentage rent is calculated at 7% for news sales and 8% for gifts and sundries. The specific Concession Agreement terms and proposed percentage rents are outlined in Attachment 3.

M/E's Proforma Operating Statement for the new post-security location lists total gross sales of \$500,000 in the first full year of operation in the new Airline Terminal, which is an increase of 9.5% over calendar year 2009. This would result in a rental fee to the Airport of \$38,150. Based on the current year enplanements, the revenue per enplaned passenger would increase by 21% or \$1.35.

Street Pricing

Santa Barbara's proposed pricing policy for both concessionaires will require all items to be priced at no more than 10% above street pricing. The Airport Director will have the authority to require market studies to confirm that street pricing is being observed for the approved items and prices. Airport staff surveyed eleven airports in the western United States regarding their pricing policies and found that Santa Barbara's proposed policy is consistent with industry standards.

Solid Waste Management

Airline Terminal concession agreements will require operators to comply with the City of Santa Barbara's Solid Waste Strategic Plan and the Airport's Solid Waste Management Plan and will provide specific requirements for concessionaires to minimize waste destined for the landfill.

Airport Commission

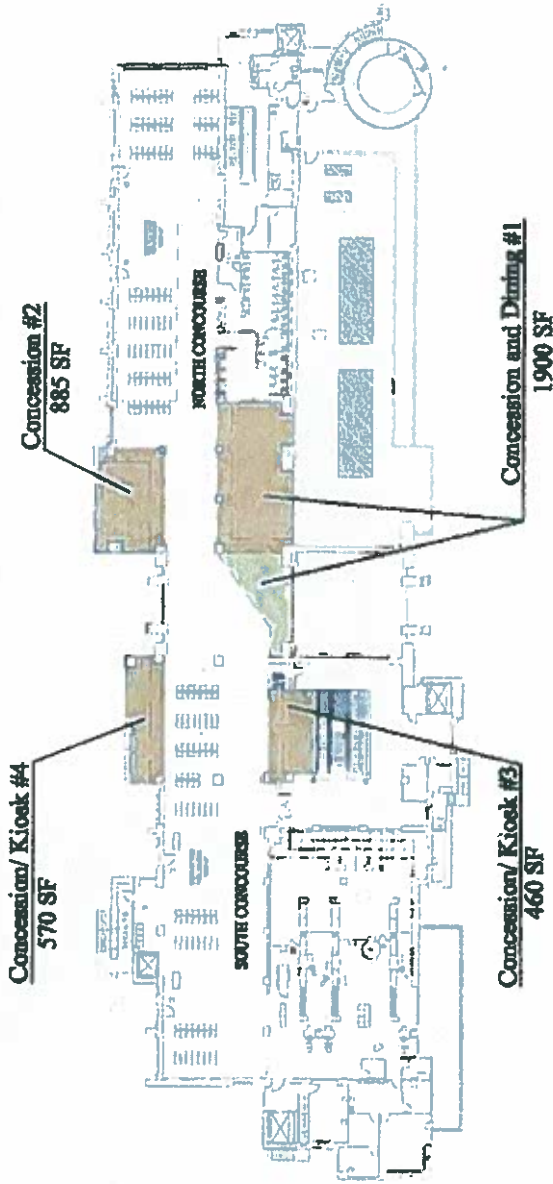
At the regularly scheduled meeting on May 19, 2010, Airport Commission reviewed the solicitation process for the retail and food and beverage proposals and unanimously recommended award of the retail and food & beverage concessions and execution of the proposed agreements.

ATTACHMENTS: 1. Concession Space Exhibit
 2. Food & Beverage Concession Agreement Proposal
 3. Retail Concession Agreement Proposal

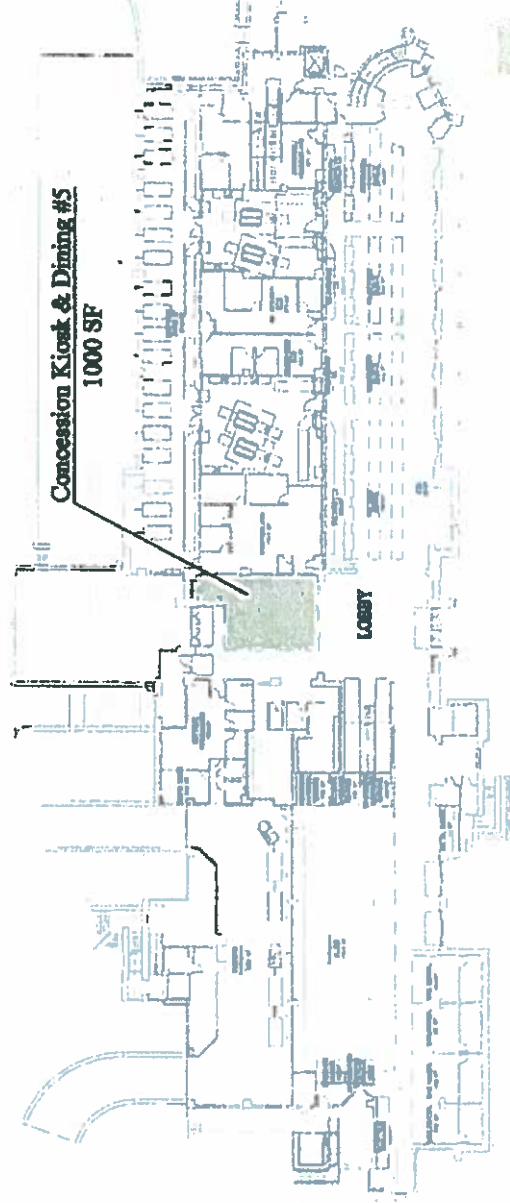
PREPARED BY: Hazel Johns, Assistant Airport Director

SUBMITTED BY: Karen Ramsdell, Airport Director

APPROVED BY: City Administrator's Office



Terminal Second Floor Key Plan



Terminal First Floor Key Plan

Concourse area
Dining area
Concession area

FOOD & BEVERAGE CONCESSION PROPOSAL

- Concessionaire** : **FIRST CLASS CONCESSIONS, INC., a California Corporation**
- Location** : 500 James Fowler Road
- Contact** : **Name** **Phone** **Fax**
 Tasneem Vakharia, President. 858.487.8984 858.487.8987
- Zoning** : Airport Facilities, AF
- Use** : Non-exclusive operation of an airport food and beverage concession serving the traveling public.
- Premises** : **(Site 1)** 1,900 square feet post-Security concession space, on the second floor of the Terminal
(Site 2) 1,000 square feet pre-Security concession space, on the ground floor of the Terminal
- Term** : **Ten years:**
Initial Term - Commencing upon the adoption of the enabling Ordinance for the purpose of design, permitting, and construction, and ending upon the first day the Premises are open to the public
Primary Term - Commencing upon the date the Premises are open to the public and ending the last day of the month 10 years thereafter
- Obligation to Construct** : Concessionaire shall expend a minimum investment of \$216 per square foot or \$410,400 for the construction, furnishing and equipping of Site 1, and \$164 per square foot or \$164,000 for Site 2. Concessionaire will provide a Schedule of Improvements which will be attached as an Exhibit to the Concession Agreement.
- Mid Term Refurbishment** : Concessionaire shall expend a minimum of \$50 per square foot for the refurbishment of Sites 1 and 2 during the sixth year of the agreement.
- Rent** : **Minimum Annual Guarantee (MAG):** \$36,000, payable in 12 equal monthly installments of \$3,000 or the percentage rent, whichever is greater.

Percentage Rent Schedule - Landside – Coffee Bean & Tea Leaf

| Enplanements: | Less than 250,000 | 250,000 to 500,000 | 500,000 and up |
|--|----------------------|-----------------------|-------------------|
| <i>Percentage of Gross Receipts from:</i> | | | |
| Specialty Coffee (Branded) | 7% | 8% | 8% |
| Food and Beverage (Non-branded, non alcohol) | 7% | 10% | 12% |

Percentage Rent Schedule - Airside – Costa Terraza Food & Spirits and Coffee Bean & Tea Leaf

| Enplanements: | Less than 250,000 | 250,000 to 500,000 | 500,000 and up |
|---|----------------------|-----------------------|-------------------|
| <i>Percentage of Gross Receipts from:</i> | | | |
| Specialty Coffee (Branded) | 7% | 8% | 8% |
| Food and Beverage (Non-branded, non alcohol) | 7% | 10% | 12% |
| Alcohol | 7% | 12% | 15% |

Deposit : Proposer's Deposit of \$12,000. Proposer will also provide a Surety Bond equal to the cost of construction to remain in effect for one year following the issuance of the certificate of occupancy. Proposal Deposit will be returned to Concessionaire once the Surety Bond is in place. A Security Deposit equal to one and one-half month's MAG will be held for the term of the lease and will be adjusted as the MAG is adjusted.

Adjustment of MAG : Annual adjustment of MAG to 85% of the previous years average monthly gross receipts. In no case will the MAG be lower than the MAG established in the first year of the agreement or the preceding year's MAG, whichever is greater.

Obligation of Concessionaire : **Pricing Policy** - The prices charged for food and beverages shall be within ten (10) percent of similar food and beverage establishments in the Santa Barbara metropolitan area. Concessionaire shall conduct periodic market basket comparison studies to verify the prices charged.

Hours of Operation – (Site 1) – post-Security grab and go – 4:30 a.m. to 6 p.m. (Site 1) bar and restaurant - 7:00 a.m. – 8:30 p.m., (Site 2) – pre-Security location – 6:30 a.m. to 9 p.m., seven days a week

Personnel – Concessionaire's staff shall be of adequate number and competently trained to meet all reasonable demands of the public in a courteous manner.

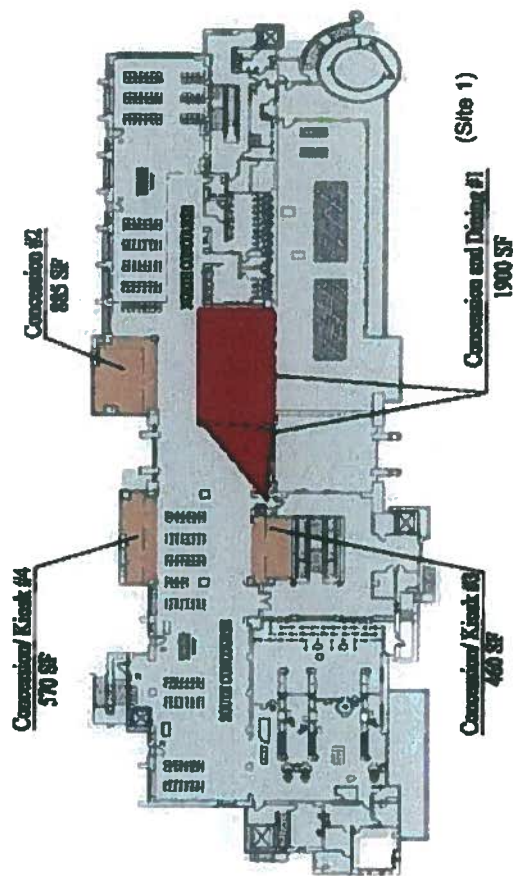
Shopping Service – City has the right to monitor and test all of Concessionaire's services by retaining a professional shopping service.

Utilities : Concessionaire will pay all charges for utilities.

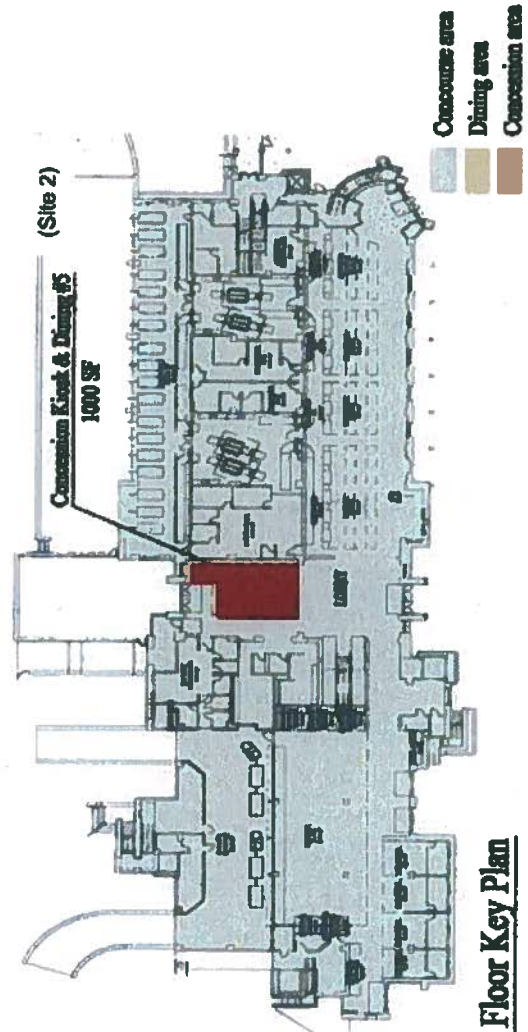
Solid Waste Strategic Plan : Concessionaire will be required to comply with the Airport's Solid Waste Management Plan and the City's Solid Waste Strategic Plan and will abide by the specific requirements to minimize waste destined for the landfill.

ATTACHMENT 2

- Insurance** : \$1,000,000 comprehensive general liability (including liquor liability) and automobile liability insurance naming City as additional insured. Concessionaire shall also carry Business Interruption Insurance.
- Business License** : Must maintain current City Business License.
- Possessory Interest** : The Concession Agreement may create a possessory interest subject to property taxation. Concessionaire is subject to the payment of property taxes levied on such an interest.
- Subleasing** : All subleases subject to prior consent by Airport Director.
- Parking** : All employee parking must take place within the area designated by the Airport Director for terminal area employees.



Terminal Second Floor Key Plan

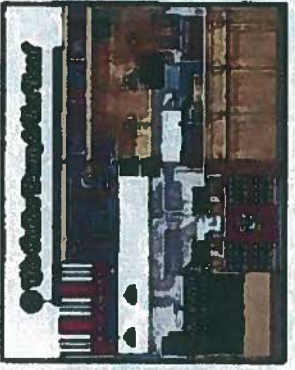


Terminal First Floor Key Plan



**CONCEPTUAL
RENDERING**

**NORTH CONCOURSE
CONCESSION &
DINING AREA #1**





RETAIL NEWS & GIFT CONCESSION PROPOSAL

- Concessionaire** : **M/E, INC., a California Corporation**
- Location** : **500 James Fowler Road**
- Contact** : **Name** **Phone** **Fax**
Kari Martindale, President. **967-7100** **967-3250**
- Zoning** : **Airport Facilities, AF**
- Use** : **Non-exclusive operation of an airport newsstand and gift shop serving the traveling public.**
- Premises** : **885 square feet of post-security concession space**
- Term** : **Ten years:**
Initial Term - Commencing upon the adoption of the enabling Ordinance for the purpose of design, permitting, and construction, and ending upon the first day the Premises are open to the public
Primary Term - Commencing upon the date the Premises are open to the public and ending the last day of the month 10 years thereafter
- Obligation to Construct** : **Concessionaire shall expend a minimum investment of \$50 per square foot or \$44,250 for the construction, furnishing and equipping of the 885 square foot retail space. Concessionaire will provide a Schedule of Improvements which will be attached as an Exhibit to the Concession Agreement.**
- Mid Term Refurbishment** : **Concessionaire shall expend a minimum of \$25 per square foot for the refurbishment of the news and gift shop during the sixth year of the agreement.**
- Rent** : **Minimum Annual Guarantee: \$12,000, payable in 12 equal monthly installments of \$1,000 or the percentage rent, whichever is greater.**

Airside – News & Gifts

| <i>Gross Receipts:</i> | \$0- \$500,000 | \$500,001 - \$750,000 | Greater than \$750,000 |
|---------------------------------|---------------------------|----------------------------------|-----------------------------------|
| News | 7% | 7% | 7% |
| Gifts & Sundries | 8% | 10% | 12% |

- Deposit** : **Proposer's Deposit of \$5,000. Proposer will also provide a Surety**

Bond equal to the cost of construction to remain in effect for one year following the issuance of the certificate of occupancy. Proposal Deposit will be returned to Concessionaire once the Surety Bond is in place. A Security Deposit equal to one and one-half month's MAG will be held for the term of the lease and will be adjusted as the MAG is adjusted.

Adjustment of MAG : Annual adjustment of MAG to 85% of the previous years average monthly gross receipts. In no case will the MAG be lower than the MAG established in the first year of the agreement or the preceding year's MAG, whichever is greater.

Obligation of Concessionaire : **Pricing Policy** - The prices charged for food and beverages shall be within ten (10) percent of similar retail establishments in the Santa Barbara metropolitan area. Concessionaire shall conduct periodic market basket comparison studies to verify the prices charged.

Hours of Operation – post-security news & gift shop – 5:00 a.m. to 8:00 p.m., seven days a week

Personnel – Concessionaire's staff shall be of adequate number and competently trained to meet all reasonable demands of the public in a courteous manner.

Shopping Service – City has the right to monitor and test all of Concessionaire's services by retaining a professional shopping service.

Utilities : Concessionaire will pay all charges for utilities.

Solid Waste Strategic Plan : Concessionaire will be required to comply with the Airport's Solid Waste Management Plan and the City's Solid Waste Strategic Plan and will abide by the specific requirements to minimize waste destined for the landfill.

Insurance : \$1,000,000 comprehensive general liability and automobile liability insurance naming City as additional insured. Concessionaire shall also carry Business Interruption Insurance.

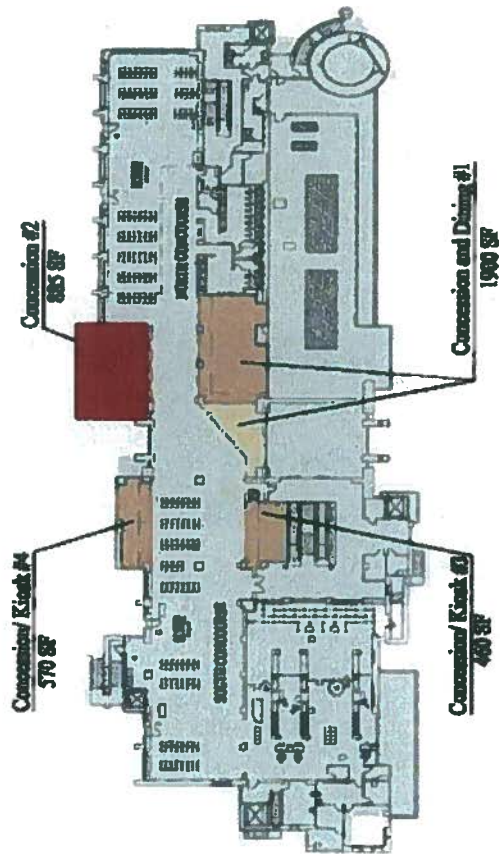
Business License : Must maintain current City Business License.

Possessory Interest : The Concession Agreement may create a possessory interest subject to property taxation. Concessionaire is subject to the payment of property taxes levied on such an interest.

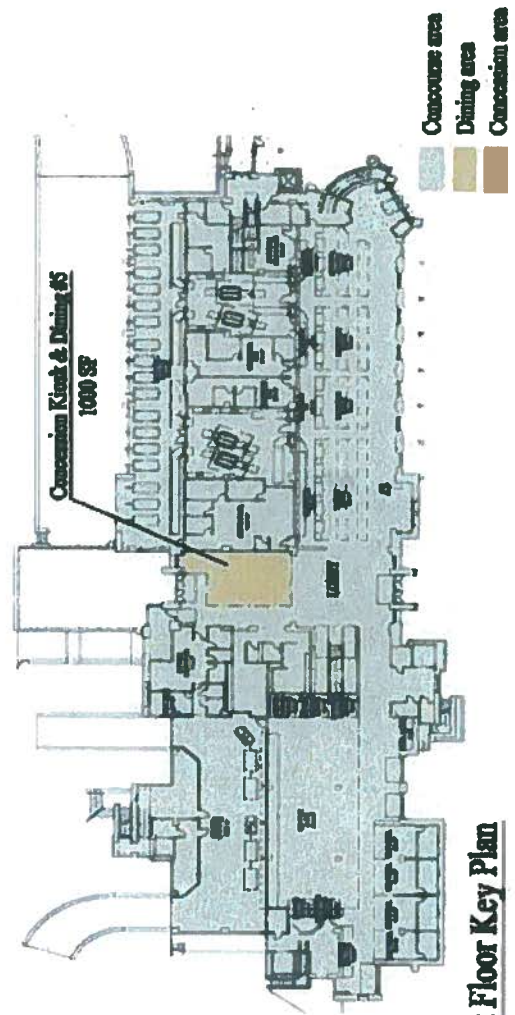
Subleasing : All subleases subject to prior consent by Airport Director.

Parking

: All employee parking must take place within the area designated by the Airport Director for terminal area employees.



Terminal Second Floor Key Plan



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